



February 13, 2007

SUBJECT: Selection of Sunnyvale Materials Recovery and Transfer (SMaRT®) Station Contractor**REPORT IN BRIEF**

On September 6, 2006, the City received two responses to its Request for Proposals (RFP) for contractors to operate its Sunnyvale Materials Recovery and Transfer (SMaRT®) Station for the next seven years. GreenTeam/Zanker of Sunnyvale currently operates the SMaRT Station® under a contract that expires December 31, 2007.

The SMaRT Station serves five main purposes:

1. Receive and recover recyclable materials from garbage collected in the cities of Mountain View, Palo Alto and Sunnyvale
2. Transfer the unrecycled portion of the garbage to the Kirby Canyon Landfill for disposal
3. Receive, process, and ship to composting facilities the yard trimmings collected by the 3 cities
4. Receive, sort and prepare for market recyclables collected at curbside
5. Provide a recycling center where residents can sell or drop off a number of recyclable materials

The two companies that submitted proposals were:

1. Bay Counties Waste Services
 - Basic Annual Payment - \$10,191,072 per year
 - Tipping fee for excess tonnage - \$21.52 per ton
2. GTZanker
 - Basic Annual Payment - \$10,895,657 per year
 - Tipping Fee for Excess Tonnage - \$15.00 per ton

The two proposals were carefully evaluated by a City team that includes staff from the Public Works and Finance departments, financial advisors Hilton, Farnkopf, and Hobson L.L.P. and Ray McDevitt of the Hanson, Bridgett, law firm, the City's special legal counsel for solid waste issues. The evaluation focused on the following areas:

- Verifying that the proposers have the financial wherewithal to perform the duties required under the contract
- Verifying the reasonableness of and consistency of proposed staffing, costs, and revenues and requesting corrections of obvious errors
- Confirming the presence of the necessary corporate authority to commit the company to the City's contract and other legal issues
- Evaluating the companies and their proposals against the five evaluation criteria listed in the RFP

After an initial review by the evaluation team, each of the proposers was asked follow-up questions, and interviewed on November 8, 2006. Following the interviews, proposers provided supplemental information and clarifications on November 20. In the case of each proposer, corrections to the recycling revenue calculations on Proposal Form 12 (the RFP form on which proposers display key operational and financial details of their proposals) resulted in changes to the Basic Annual Payment calculated by Proposal Form 12, and shown on Proposal Form 13, (the RFP form that summarizes the proposed pricing). On November 28th and 29th, staff conducted due diligence reviews of five facilities operated by the proposers.

Bay Counties Waste Services received the highest rankings in three evaluation criteria including experience, approach and basic annual payment (the key financial element). GTZanker received the highest ranking for diversion level. Neither proposer took exception to the contract terms therefore they were rated equal in this criterion. Compared to the GTZanker proposal, the Bay Counties proposal shows a more thorough approach toward operating the SMaRT Station in accordance with the City's standards for performance. The Bay Counties proposal also results in the lowest net cost to the cities. Staff is thus recommending that Council award the SMaRT Station operating contract to Bay Counties Waste Services.

BACKGROUND

The Facility

The Sunnyvale Materials Recovery and Transfer (SMaRT) Station began operations in October 1993. The SMaRT Station was built by the City of Sunnyvale, in partnership with the cities of Mountain View and Palo Alto, to serve five main purposes:

- Receive and recover recyclable materials from garbage collected in the 3 cities
- Transfer the unrecycled portion of the garbage to the Kirby Canyon Landfill for disposal

- Receive, process, and ship to composting facilities the yard trimmings collected by the 3 cities
- Receive, sort and prepare for market recyclables collected at curbside
- Provide a recycling center where residents can sell or drop off a number of recyclable materials

At the SMaRT Station, residents of the three cities may also:

- Dispose of “self haul” refuse
- Pick up free ground yard trimmings suitable for composting
- Drop off certain products that may not be placed in the garbage such as batteries, used motor oil, fluorescent light bulbs, computers and televisions and consumer electronic devices at no cost
- Tour the facility individually or in groups

The costs of building and operating the SMaRT Station are shared by the three cities as specified by a Memorandum of Understanding (MOU) among the cities. At current garbage delivery rates, Sunnyvale is responsible for about ½ of the SMaRT Station operating expenditures and receives about ½ of the revenues earned by the cities from recyclables removed from the garbage. The capital cost of the SMaRT Station was financed by the sale of revenue bonds by Sunnyvale. The debt service on the bonds is shared among the three cities as specified in the MOU.

In 2005, a capital project to replace the SMaRT Station MRF equipment was approved by the City Council. On January 3, 2007, the project was advertised for bids with bids due on February 14, 2007. Council received an update on the status of the project on December 19, 2006 in an Information Only Report to Council (RTC 06-406).

Origin of Current Operations Agreement and Contractor

GreenTeam/Zanker currently operates the SMaRT Station under a contract that expires December 31, 2007. The selection of the current operator of the SMaRT Station was the outcome of a request for proposals (RFP) issued in 1999 that resulted in four proposals being received. That RFP offered a seven-year contract that required the contractor to meet a minimum diversion level and featured sharing of recycling revenues between the cities and the contractor.

Of the four proposals received in 1999, GreenTeam/Zanker’s proposal offered the lowest net cost to the cities, as well as the lowest minimum recycling level (14.5%). On April 11, 2000, the City Council selected GreenTeam/Zanker to operate the SMaRT Station for a 7-year term beginning January 1, 2001.

SMaRT Station Operating Results

Over the past six years, the SMaRT Station has received an average of 266,000 tons of garbage, yard trimmings and source-separated recyclables annually. Diversion of garbage from the landfill has averaged 18.7%. Revenues from the sale of recyclable materials which are shared with the operator have steadily increased, reaching \$4,593,000 in 2005/06.

Current annual refuse transfer and material recovery expenses of the “SMaRT Cities” participating agencies (Mountain View, Palo Alto and Sunnyvale) are approximately \$6,000,000. In addition to that income, the operator retains recycling revenues totaling about \$3,000,000 annually as an incentive for higher materials recovery diversion levels and about \$100,000 per year as its share of fees paid for loads delivered by members of the public.

With the diversion provided by SMaRT making the difference, Sunnyvale has exceeded the State of California’s “50% by 2000” solid waste diversion mandate. Diversion of wastes generated in Sunnyvale was calculated to be 61% during 2005. SMaRT plays a key role in that accomplishment in many ways, including:

- Diversion of recyclables from garbage
- Processing yard trimmings
- Processing curbside and multi-family recyclables
- Providing a drop-off/buyback recycling location for residents

The SMaRT Station is among the most advanced materials recovery facilities (MRFs) in the Western United States. It is a popular tour location for solid waste industry professionals, public officials, and universities. During its 13 years of operation, visitors have come to SMaRT from states across the U.S. and nations throughout the world, including Australia, Canada, China, Egypt, Germany, Great Britain, India, Italy, Japan, Korea, New Zealand, the Philippines, Poland, South Africa, Spain, Taiwan, Thailand and the United Nations. These visitors are impressed by the scope and sophistication of the facility and the message that it sends about Sunnyvale’s commitment to minimizing the amount of waste that is landfilled.

EXISTING POLICY

Solid Waste Sub-Element, Policy 3.2D.2 – Reduce the amount of refuse being disposed, generate recycling revenues, and minimize truck travel to the disposal site through use of the Sunnyvale Materials Recovery and Transfer (SMaRT) Station.

DISCUSSION

Request for Proposals

On June 20, 2006, Council approved the issuance of the SMaRT Station Operations Request for Proposals.

Key provisions of the RFP are summarized below.

- Seven-year agreement
- Contractor has 3 sources of revenue
 1. fixed annual payment for handling amounts of Municipal Solid Waste (MSW) and yard trimmings up to 280,000 tons per year, with a payment per ton for amounts above that ceiling (Consumer Price Index (CPI) adjusted)
 2. diversion-based share of material sales revenues
 - minimum diversion 17.5%
 - 25% diversion earns 75% of revenues
 3. per cubic yard charge for public haul wastes (CPI adjusted)
- Employee wages are required to be, at minimum, those determined by the City Council on June 20, 2006, and increased using the consumer price index throughout the contract term
- Requires proposers to provide a description of their employee health benefit plan
- Requires selected contractor to offer employment to eligible employees of current operator for available driver, sorter, mechanic and operator positions

SMaRT Station MRF Equipment Replacement Project

At the time the SMaRT Operations RFP was issued in July 2006, the design for new MRF equipment was being finalized. Proposers were asked to quote an annual payment for operations under the new MRF design. To preserve the City's options, proposers were asked to quote an annual payment that presumes that the existing equipment remains in use. In both of the proposals received, the proposed annual payment to the operator is significantly higher if the new equipment is not installed. If the project is completed some time after the new operator begins its operation of the SMaRT Station in January 2008, the contract specifies an interim compensation adjustment for the operator during the demolition and construction period.

Key Elements of Proposals

Two proposals were received on September 6, 2006. In accordance with the City's procurement policy, information contained in these proposals was not disclosed to competing proposers, or to any other person except City personnel responsible for the procurement.

The key elements of the two proposals are shown in Table 1 below.

The Net Annual SMaRT/Landfill Expense of each proposal is evaluated at the proposer's projected recycling level.

Table 1—Key Proposal Elements

<u>Proposer</u>	<u>Projected Recycling Level</u>	<u>Basic Annual Payment to Operator</u>	<u>Tipping Fee for Excess Tonnage</u>	<u>Net Annual SMaRT/Landfill Expense</u>
Bay Counties	19.01%	\$10,191,072	\$21.52	\$16,634,277
GTZanker	21.85%	\$10,895,657	\$15.00	\$17,955,389
Existing Contract	18.70%	\$9,743,718	N/A	\$15,115,904

See Attachment A for a more detailed description of each proposal.

Evaluation and Comparison of Proposals

Evaluation Process

The two proposals were carefully evaluated by a City team that includes staff from the Public Works and Finance departments, financial advisors Hilton, Farnkopf, and Hobson L.L.P (HF&H) and Ray McDevitt of the Hanson, Bridgett, law firm, the City's special legal counsel for solid waste issues. The evaluation focused on the following areas:

- Verifying that the proposers have the financial wherewithal to perform the duties required under the contract
- Verifying the reasonableness of and consistency of proposed staffing, costs, and revenues and requesting corrections of obvious errors
- Confirming the presence of the necessary corporate authority to commit the company to the City's contract and other legal issues
- Evaluating the companies and their proposals against the five general criteria listed in the RFP:
 1. Experience and qualifications of the Proposer to operate a materials recovery and transfer facility of this size;
 2. Thoroughness, comprehensibility, and adequacy of facility operating and marketing plans, and overall proposal approach;

3. Basic Annual Payment proposed;
4. Projected materials recovery percentage;
5. The number, nature, and materiality of exceptions taken to the Agreement;

After an initial review by the evaluation team, each proposer was asked follow-up questions and asked to provide supplemental information. After these submittals were received on October 27, 2006, interviews were conducted with each proposer on November 8. Following the interviews, proposers submitted supplemental information and clarifications on November 20. In the cases of both proposers, corrections to the recycling revenue calculation on Form 12 resulted in changes to the basic annual payment on Form 13. On November 28 and 29, staff and consultants conducted due diligence reviews of five facilities operated by the two proposers. Information gathered during this process was incorporated into the review process. Subsequent to the November 20 submittal, GTZanker discovered errors in its calculations and resubmitted proposal forms 12 and 13 on December 5. A footing error discovered in Bay Counties proposal forms was corrected by Bay Counties on December 22, resulting in its resubmittal of forms 12 and 13 on that date. Details of these resubmittals are included in Attachment A to this RTC. Both proposers were permitted to correct errors and/or omissions and resubmit proposal forms based on follow-up questions from the evaluation team.

Evaluation by Criterion

The procurement of a SMaRT Station operator for the next seven-year contract was conducted as an RFP rather than a bid because price alone is an insufficient criterion for selection. The agreement for operation of the SMaRT Station describes a complex scope of work and contains significant incentive-driven recycling provisions. The City must rely upon the skill and experience of the operator to achieve municipal policy goals related to diversion of waste from landfills, generation of revenues from sale of recyclable materials, compliance with complex environmental permits held in the City's name, and provision of good customer service to the residents and businesses that use the facility. The City also must rely on the operator's skill and diligence to properly repair and maintain the City's \$26 million investment in the facility and its complex automated equipment.

None of the important factors noted above would have been evaluated if the SMaRT Station procurement were conducted as a bid. However, the Request for Proposals process used in this procurement allows the City to consider all of the criteria discussed below.

Experience

To evaluate proposer experience, each facility operated by the proposers was compared to SMaRT on the basis of tons handled and similarity of functions, waste stream, and machinery sophistication. Functions evaluated were:

- Mixed Waste Processing (i.e. sorting of recyclables from solid waste)
- Source-Separated Recyclables Processing
- Public buyback center
- Public scalehouse
- Organics processing
- Recyclable Materials Marketing
- Long Haul Transport (transfer of solid waste to a landfill)

In addition, each facility's regulatory and compliance history was reviewed and ranked. Each facility was then scored, and these scores summarized to generate an overall "Experience Ranking" for each proposer. Each proposer was then assigned a score that reflected its experience ranking relative to the highest ranking received.

Approach/Plan

This criterion considers each proposer's understanding of the scope of work of the contract, the quality of its proposal, and its anticipation of the various issues involved in operating the SMaRT Station. The evaluation team ranked the proposals in quality order and assigned scores based on the information contained in each of the proposals.

Basic Annual Payment

The lower basic annual payment received the full score, and the other basic annual payment received a score that reflected its proportional variance from the lower basic annual payment.

Projected Recycling Level

The higher projected recycling level received the full score, and the other received a score that reflected its proportional variance from the higher projected recycling level.

Exceptions to the Contract

This criterion rates the willingness of each proposer to accept the contract terms presented by the City in the RFP. Following the interviews, it was determined that neither proposer took exception to the contract terms, so both received the full score on this criterion.

Evaluation Results

The criteria were weighted in a manner developed by the evaluation team, with the sum of the ratings adding to 100%. The results of the evaluation process are shown in Table 2.

Table 2—Proposal Rankings

<u>Criterion</u>	<u>Percent</u>	<u>Bay Counties</u>	<u>GTZanker</u>
Experience	17.0%	17.0%	14.1%
Approach/Plan	11.0%	11.0%	8.3%
Basic Annual Payment	44.0%	44.0%	41.0%
Diversion Level	17.0%	15.7%	17.0%
Exceptions	11.0%	11.0%	11.0%
Rating	100.0%	98.7%	91.3%
Ranking =		1	2

Bay Counties Waste Services emerged as the top proposal. The Bay Counties Waste Services rating was most heavily influenced by its top rankings on Experience, Approach/Plan and Basic Annual Payment.

Bay Counties Waste Services received the highest ranking in experience, which included a review of references, operating facilities and compliance history. While GTZanker has the experience of currently operating the SMaRT Station, its experience ranking was lower due to several instances of non-compliance with the agreement during its term as operator, and facility permit violations issued by the local enforcement authorities at referenced facilities.

Bay Counties Waste Services provided the most comprehensive and detailed operating plan elements, including health and safety programs and maintenance plans for City owned equipment that meet or exceed the contract standards. The Bay Counties proposal discusses the importance of maintaining facility controls and operating standards such as the control of vectors, odors and litter (among others), and discusses the company's plans to maintain these controls through good housekeeping practices and timely movement of Municipal Solid Waste (MSW) to the landfill.

The GTZanker proposal does not adequately discuss the facility controls and operating standards, even though there have been issues of significant noncompliance with the agreement during the term of the current contract with GreenTeam/Zanker. A total of 20 times during its 6-year term, and as recently as September 2006, GreenTeam/Zanker was assessed liquidated damages by the City for failure to clear garbage from areas of the tipping floor in accordance with the agreement. This requirement is in the agreement to maintain control of odors, litter and disease vectors, and to ensure compliance with state regulations that require garbage to be removed to the landfill within 48 hours. Failure to remove garbage from the transfer station in a timely manner exposes the City to notices of permit violations.

Note that the Basic Annual Payment is the most heavily weighted criterion in Table 2. This is because the basic annual payment for operation of the SMaRT Station is the key financial element of the contract.

There are other financial impacts that vary among the proposals, particularly with regard to the Projected Recycling Level anticipated by the proposer. The contract requires a minimum recycling level of 17.5%. A proposer who recycles more of the solid waste delivered to SMaRT will transport less to the landfill. This benefits the cities in three ways:

- Achieving “50% by 2000” State Mandate—The SMaRT Station currently diverts from the landfill 18% of the solid waste brought to SMaRT, thus exceeding the facility’s original design criterion of 15%. Diversion from the SMaRT Station is essential to the overall diversion rates for Sunnyvale (61%), Palo Alto (62%) and Mountain View (58%)¹.
- Thus, all three cities have already exceeded the state mandate. While it is vitally important to maintain the existing level of diversion at SMaRT, the cities appear to have little or no financial or regulatory incentive to spend additional funds to further increase SMaRT diversion.
- Reducing Landfill Expenses—higher diversion levels at SMaRT mean that the cities pay less for disposal of waste at the Kirby Canyon Landfill.
- Increasing Revenues from Sale of Recycled Materials—in general, when more recyclables are diverted at SMaRT, the operator’s gross revenues from sale of those materials increases. The operator then retains a share of the revenues and passes along the remainder to the cities. The proportions of this revenue split are determined by a sliding scale in the contract. The share of revenue kept by the contractor increases as the diversion rate increases.

¹ Mountain View is currently proposing a new diversion Base Year to the California Integrated Waste Management Board that would raise its diversion to a new rate. That higher rate is still unknown.

The net financial impacts to the cities of varying SMaRT diversion rates are real, although somewhat more difficult to precisely predict than the impacts of the basic annual payment. Taking into account all known financial factors, the net cost of each proposal, including basic annual payment, recycling revenues and landfill disposal costs is shown below and in Table 1. For both proposers, it is assumed that waste diversion is at the proposed Recycling Level and that the cities deliver 252,549 tons of garbage and yard trimmings².

Bay Counties	\$16,634,277
GTZanker	\$17,955,389
Existing Contract	\$15,115,904

Shown below in Table 3 are the origins of these net costs which illustrate the key operating assumptions, cost and revenue details.

Table 3 – Net Cost Calculations

Costs		Bay Counties <u>Waste Serv</u>	GT <u>Zanker</u>	Current <u>Contract Cost</u>
Tons MSW/Yard Trimmings to SMaRT		252,549	252,549	252,549
x Tipping Fee (2006 dollars)		Not applicable	Not applicable	\$ 24.94
SMaRT Basic Annual Payment (2006 dollars)	A	\$ 10,191,072	\$ 10,895,657	\$ 6,298,572
 Tons MSW to SMaRT ⁽²⁾		228,393	228,393	228,393
MSW Diversion rate		19.01%	21.85%	18.00%
Tons Diverted		(43,418)	(49,904)	(41,111)
Disposal Cost per ton (2006 dollars)		\$ 53.15	\$ 53.15	\$ 53.15
Total Kirby Landfill Disposal Costs	B	\$ 9,831,447	\$ 9,486,697	\$ 9,954,052
 Minimum Tonnage Commitment to Landfill		187,628	187,628	187,628
Tons Disposed at Landfill		184,975	178,489	187,282
Put or Pay Payment (2006 dollars)	C	\$ 89,469	\$ 308,254	\$ 11,662
 Subtotal - All Costs		\$ 20,111,988	\$ 20,690,608	\$ 16,264,286
Revenues				
Total Recycling Revenues		\$ 4,241,111	\$ 4,411,645	\$ 4,593,527
% Revenue Share - Contractor		18.00%	38.00%	75.00%
% Revenue Share - Cities		82.00%	62.00%	25.00%
Recycling Revenue - Contractor		\$ 763,400	\$ 1,676,425	\$ 3,445,146
Recycling Revenues - Cities	D	\$ 3,477,711	\$ 2,735,220	\$ 1,148,382
 Net Cost to Cities (A+B+C-D)		<u>\$ 16,634,277</u>	<u>\$ 17,955,389</u>	<u>\$ 15,115,904</u>

² Delivery amount assumes current tons growing at 0.5% per year, then averaged over contract term

While GTZanker's proposal assumes diversion of 21.85% vs. Bay Counties Waste Service's assumption of 19.01%, it would be at an additional net cost of over \$1.3 million per year. With none of the cities pursuing a diversion strategy based on significant increases in SMaRT diversion, it is difficult to justify the additional expenditure. It should also be noted that projected and actual diversion may vary. For example, the current operator, GreenTeam/Zanker, proposed a minimum diversion level of 14.5% but has so far diverted more than 18%.

In order to provide Council with a complete range of alternatives to consider, each proposer has been asked to sign a fully developed agreement with the City. Assuming staff has received a signed agreement from each proposer by the date of the Council meeting, Council has the ability to select either one of the proposers. Due to their large size, the agreements have not been attached to this RTC, but they are available for review upon request.

Staff is recommending that Council award the SMaRT Station operations contract to Bay Counties Waste Services, authorize the City Manager to execute the agreement with Bay Counties Waste Services and authorize the appropriate staff members to administer the contract.

Alternatives Proposed

Each of the proposers offered alternative proposals for the City's consideration. The following options may be negotiated with the selected operator at any future date:

1. Construction and Demolition (C&D) Sorting Line

The base proposal from GTZanker proposed a C&D sorting line be installed on the southeast side of the tipping floor³. During its oral interview, Bay Counties Waste Services volunteered that it would be interested in adding a C&D sort line to its proposal. Staff later asked Bay Counties to provide another version of their proposal to include a C&D sort line. However, the equipment proposed by both companies and its operations would utilize a large area of the tipping floor and has the potential to hinder essential tipping floor functions.

Areas of concern include:

- the potential for waste to be spread and tracked outside the facility, a violation of permit requirements
- a reduction of about 40% in the area available for dumping refuse collection trucks

³ In order to allow an "apples to apples" comparison of the cost of both proposals, staff asked for, and GTZanker provided, another version of its proposal that did not include this C&D sorting line.

- a similar reduction in the space available for residents to unload vehicles during Spring and Fall extra dump weekend events which would lead to long lines and wait times during these events
- the potential for traffic conflicts, because the same number of trucks will be unloading in a more limited area
- reduced area in which to store the garbage during peak delivery times

The floor space required and the increased vehicle activity from this proposed operation will likely increase wait times for haulers and public customers to dispose their loads at the facility.

The financial analysis shows that the costs to the cities would be higher under this alternative. The net costs for this alternative under the Bay Counties proposal would be an additional \$795,000 per year compared to the current agreement, and under the GTZanker proposal an additional \$1,603,000 annually. The additional materials diverted from the operation of this equipment (such as wood and “fines”) are of low value, and there is an associated cost (or negative market value) to recycle these materials. Annual costs associated with this alternative are shown below with details of net costs in Attachment B to this report.

Bay Counties	\$16,706,331
GTZanker	\$18,322,978
Existing Contract	\$15,115,904

Staff has contracted with an engineering firm to determine what effects the installation and operation of this equipment will have on the essential functions of the SMaRT Station. Until the operational effects are better understood, staff cannot recommend this option.

2. Alternative Fuels

At a minimum, each of the proposers will use a proven fuel, biodiesel to power loaders. GTZanker proposed to power transfer vehicles with biodiesel, and Bay Counties has agreed to use their best efforts to utilize biodiesel in their transfer vehicles as soon as practicable. Bay Counties Waste Services proposed an option to utilize nine transfer vehicles powered by compressed natural gas (CNG) at an additional cost of \$94,000 per year. Currently there are no known solid waste transfer fleets that are powered by CNG. Because CNG technology has not been used before for this type of application and because transfer trucks are a key element in the reliable operation of the SMaRT Station, staff recommends the use of biodiesel loaders and transfer trucks, but not CNG transfer trucks.

3. Optical Container Sorting System for Source-Separated Recyclables

GTZanker submitted an alternative proposal to add optical sorting equipment to the source-separated recyclables sorting line. This equipment will require a capital outlay of \$400,000 and GTZanker suggests that it will reduce sorting personnel by four and reduce expenses by \$139,000 per year, about \$69,000 of which is Sunnyvale's share. Installation of this equipment would require physical modifications to City equipment that would be removed at the end of the contract term.

Staff observed an example of this optical sorting equipment in operation during a site visit and is not yet convinced the equipment would be fully effective in this application. Optical sorters are highly sensitive to the way in which the materials to be sorted enter the machine, in terms of flow rate, depth and cleanliness of material. The optical sorter that staff observed on the site visit was notably ineffective, at least in part due to the flow rate and depth of the incoming material.

Revenue from sale of plastics, which makes up a large share of the recycling revenues generated at SMaRT and received by the cities, could be adversely affected, based on staff's observations. Depending on the details of how the machine is set up (which affects how plastic containers are grouped together or separated for marketing), the optical sorter could reduce revenues more than it reduces expenses.

An additional concern is the reliability of this complex piece of equipment in terms of "its uptime." The proposed location of the optical sorter would block access to the container conveyor belt and allows for no redundancy or work-around in the event of sorter downtime. This would essentially prevent use of human sorters during repair downtime, and extensive unscheduled downtime could seriously compromise the overall functioning of the curbside materials sorting system.

Staff is well aware of the potential benefits of applying optical sorting to recycled materials. However, careful evaluation of the particular operational and economic effects of this specific use of an optical sorter is needed in order to determine if it will be appropriate and effective in the proposed application.

4. Alternative Revenue Share

Bay Counties Waste Services proposed an alternative to the sliding scale of diversion based revenue share for diversion levels that exceed 20%. Currently, the operator would earn 75% of revenues at a 25% diversion level. This alternative scale would earn the operator 50% of revenues at a 25% diversion level. Thus, at higher diversion levels, the city would keep a larger share of recycling revenues and the operator would keep less revenue. This alternative

revenue share shifts a higher risk and reward to the City, which the City has had good success with in the past, receiving higher recycling revenues. Staff has evaluated this alternative, believes it to be beneficial to the City and is therefore recommending this alternative revenue share be incorporated into the agreement with Bay Counties Waste Services.

The alternative revenue share proposed by Bay Counties Waste Services has been incorporated into that proposer's agreement. If Council indicates its interest in pursuing one or more of the first three alternatives, staff recommends that it direct staff to further research the item in question for incorporation into the agreement or operation on a trial basis or by way of a contract amendment, as appropriate.

FISCAL IMPACT

Awarding the contract to either proposer will increase net annual operating costs of the SMaRT Station materials recovery, transfer, and disposal system. Increases in costs over the current operating costs are largely due to the City's new requirements for the floor wages to be paid to contractor personnel working at the SMaRT Station. Awarding the contract to Bay Counties Waste Services is projected to increase annual net operating costs by \$1,518,373. Awarding the contract to GTZanker would increase annual operating costs by \$2,839,484.

As the source of about 50% of the solid waste delivered to the SMaRT Station, Sunnyvale would thus see increased annual costs (net of revenues) of about \$759,000 (Bay Counties) or \$1,419,000 (GTZanker) starting midway through FY 2007/08. Taken as a percentage of the currently budgeted solid waste rate revenue requirement, this item equates to a rate increase of 2.7% (Bay Counties) or 5.0% (GTZanker)⁴. The changes to Fund 485 (Solid Waste Management Fund) that result from the Council's action will be incorporated into the analysis of refuse collection rates for FY 2007/08 and beyond.

	<u>Bay Counties</u> <u>Waste Services</u>	<u>GT</u> <u>Zanker</u>
Net Cost to Cities	\$ 16,634,277	\$ 17,955,389
Increase in annual costs	\$ 1,518,373	\$ 2,839,484
Sunnyvale share of cost increase	\$ 759,187	\$ 1,419,742
Rate impact	2.7%	5.0%

⁴ Costs and rate impacts stated in 2006/07 dollars

CONCLUSION

Following its analysis of the two proposals, staff believes that the recommended proposer, Bay Counties Waste Services possesses the requisite skills and experience to operate and maintain the SMaRT Station in a manner that will well serve the City. Contracting with Bay Counties Waste Services has the added benefit of also providing the lowest net cost to the cities. Thus, staff is recommending that the Council award the contract to Bay Counties Waste Services.

PUBLIC CONTACT

This RTC was made available to the proposers and to the cities of Mountain View and Palo Alto one week in advance of the City Council meeting. The Council Agenda was published and posted. In addition, all reports are available in the Library and on the City's Internet home page.

ALTERNATIVES

1. Award the SMaRT Station operations contract to Bay Counties Waste Services and authorize the City Manager to execute the operating agreement referenced in this report
2. Award the SMaRT Station operations contract to GTZanker and authorize the City Manager to execute the operating agreement. referenced in this report
3. Other action as directed by Council

RECOMMENDATION

Staff recommends Alternative No. 1: Award the SMaRT Station operations contract to Bay Counties Waste Services and authorize the City Manager to execute the operating agreement referenced in this report.

Bay Counties Waste Services possesses the requisite skills and experience to operate and maintain the SMaRT Station in a manner that will well serve the City. Contracting with Bay Counties Waste Services has the added benefit of also providing the lowest net cost to the cities. Staff is recommending that Council award the contract for operation of the SMaRT Station to Bay Counties Waste Services, authorize the City Manager to execute the appropriate agreement and authorize the City Manager, Director of Public Works, Director of Finance and/or their designees to administer the provisions of the agreement and take actions on behalf of the City that are within the scope of authority properly delegated to them.

Reviewed by:

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Approved by:

Amy Chan
City Manager

Attachments

- A. Summary information on Proposers and Proposals
- B. C&D Sort Line Alternative – Cost Detail

Proposers and Proposals**ATTACHMENT A*****Bay Counties Waste Services (Santa Clara, California)*****Proposer**

Bay Counties is the franchised refuse collection contractor for Sunnyvale, operating under the name Specialty Solid Waste and Recycling. Bay Counties is privately held. Ownership of Bay Counties is shared among 14 individuals associated with Pleasanton Garbage and South San Francisco Scavengers, and Specialty. Bay Counties has annual gross revenues of approximately \$14 million, nearly all from its collection contract with the City of Sunnyvale.

Pleasanton Garbage collects solid waste and recyclables in Pleasanton and operates a materials recovery facility/transfer station there.

South San Francisco Scavenger collects solid waste and recyclables in South San Francisco, Millbrae, Brisbane and San Francisco International Airport. It operates a materials recovery facility/transfer station in the Oyster Point area of South San Francisco adjacent to San Francisco Bay.

Proposal

Basic Annual Payment - \$ 10,191,072

Projected Recycling Level – 19.01%

Number of employees proposed – 118

Key Personnel Proposed – Bay Counties identified a transition team consisting of managers from Specialty, South San Francisco Scavenger and Pleasanton Garbage Service. On-site managers are to be named.

The transition team is described as follows:

- William Dobert – Financial and administrative operations oversight
- Jerry Nabhan – Interim General Manager, general ongoing oversight, civic/community relations
- Robert Molinaro – Operations oversight
- William Jones – Safety program implementation
- Brian Storti – Materials Marketing
- Doug Button – Scale operations/public buy-back center
- Ronald Fornesi – Recyclables and MSW processing oversight
- John Rossi – Maintenance and transfer operations oversight

The proposer has indicated that these individuals will provide ongoing oversight after on-site managers have been named.

Deviations Waived

Date	Bay Counties Deviation Waived	
9/7/06	A typographical error was corrected on Form 13	No change in Basic Annual Payment
11/20/06	Forms 12 revenue split was incorrectly calculated. Form 12 revenue split was recalculated and resubmitted.	Basic Annual Payment 10/27/06: \$9,717,382 11/20/06: \$10,099,595
11/20/06	At oral interview (11/6/06) Proposer suggested an option for a C&D sorting line and submitted an alternate proposal for this option	No change in Basic Annual Payment for base proposal
12/22/06	Footing error on Forms 12B and 12C. Forms 12B, 12C and 13 were resubmitted	Basic Annual Payment 11/20/06 \$10,099,595 12/22/06 \$10,191,072

GTZankerProposer

GTZanker is a joint venture formed on August 31, 2006 consisting of two partners Zanker Road Resource Management, Ltd. (a California Limited Partnership), and GreenWaste Recovery, Inc. (a California Corporation). The primary purpose of the joint venture is to bid and acquire the contract for the SMaRT Station. With the exception of the sale of a joint venture partner in 2003, GreenTeam of San Jose, this joint venture is under the same ownership as the current operator of the SMaRT Station, GreenTeam/Zanker of Sunnyvale.

Zanker Road Resource Management, LTD. Operates the Zanker Road Landfill in San Jose. The Zanker Road Landfill takes only “dry” garbage and include extensive materials recovery operations. Zanker Road Resource Management also operates the Z-Best Composting Facility in southern Santa Clara County. GreenWaste Recovery, Inc. operates a MRF/transfer facility in San Jose. Zanker has annual gross revenues of approximately \$29 million.

Proposal

Basic Annual Payment - \$ 10,895,657

Projected Recycling Level – 21.85%

Number of employees proposed – 118

Key Personnel Proposed

- Todd Storti is proposed as General Manager
- Donald Dean is proposed as Controller/Chief Financial Officer (offsite, at San Jose office)
- Geronimo Martinez is proposed as MRF Manager
- Darin Evans is proposed as Tip Floor/Transfer Manager

- Nadrah Simone is proposed as Environmental Health and Safety, Human Resources/Office Supervisor
- Helen Than is proposed as Accounting Supervisor (offsite, at San Jose office)

GTZanker (cont'd)Deviations Waived:

Date	GTZanker Deviation Waived	
10/27/06	Base proposal included installation and operation of an additional C&D sorting line. Proposer resubmitted Proposal Forms 12 without the installation/operation of this equipment.	Basic Annual Payment Original: Not applicable Revised:\$8,627,049
11/20/06	Forms 12 revenue split was incorrectly calculated. In addition, certain expenses were revised to omit C&D sort line. Form 12 was resubmitted.	Basic Annual Payment 10/27/06:\$8,627,049 11/20/06:\$8,498,497
11/20/06	Forms 12 "Alternative" were revised and resubmitted to indicate a corrected number of sorters.	No change in Basic Annual Payment
12/5/06	Proposer found errors in Forms 12 (A, B, C) in 11/20/06 revision with and without C&D sorting line. Forms 12 (6) were recalculated and resubmitted and Forms 13 (2) was resubmitted.	Basic Annual Payment 11/20/06:\$8,498,497 12/05/06:\$10,895,657
1/26/06	Proposer found errors in calculation of Tipping Fee for Excess Tonnage. Form 13 was corrected and resubmitted	Tipping Fee for Excess Tonnage 12/5/06: \$31.91 1/26/06: \$15.00

Attachment B

**Analysis of Costs - Alternative
Addition of C&D Sorting Line**

Costs		Bay Counties Waste Serv	GT Zanker	Current Contract Costs
Tons MSW/Yard Trimmings to SMaRT		252,549	252,549	252,549
x Tipping Fee (2006 dollars)		Not applicable	Not applicable	\$ 24.94
SMaRT Basic Annual Payment (2006 dollars)	A	\$ 9,835,579	\$ 9,726,021	\$ 6,298,572
Tons MSW to SMaRT ⁽¹⁾		228,393	228,393	228,393
MSW Diversion rate		20.16%	25.32%	18.00%
Tons Diverted		(46,044)	(57,829)	(41,111)
Disposal Cost per ton (2006 dollars)		\$ 53.15	\$ 53.15	\$ 53.15
Total Kirby Landfill Disposal Costs	B	\$ 9,691,848	\$ 9,065,471	\$ 9,954,052
Minimum Tonnage Commitment to Landfill		187,628	187,628	187,628
Tons Disposed at Landfill		182,349	170,564	187,282
Put or Pay Payment (2006 dollars)	C	\$ 178,062	\$ 575,572	\$ 11,662
Subtotal - All Costs		\$ 19,705,488	\$ 19,367,064	\$ 16,264,286
Revenues				
Total Recycling Revenues		\$ 4,052,915	\$ 4,176,345	\$ 4,593,527
% Revenue Share - Contractor		26.00%	75.00%	75.00%
% Revenue Share - Cities		74.00%	25.00%	25.00%
Recycling Revenue - Contractor		\$ 1,053,758	\$ 3,132,259	\$ 3,445,146
Recycling Revenues - Cities	D	\$ 2,999,157	\$ 1,044,086	\$ 1,148,382
Net Cost to Cities (A+B+C-D)		<u>\$ 16,706,331</u>	<u>\$ 18,322,978</u>	<u>\$ 15,115,904</u>
Increase in annual costs		\$ 1,590,427	\$ 3,207,074	
Sunnyvale share of cost increase		\$ 795,213	\$ 1,603,537	
Rate impact		2.8%	5.7%	

⁽¹⁾ Delivery amount assumes current tons growing at 0.5% per year, then average over contract term